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SUBJECT: NPC: FOOD INFLATION RURAL SECTOR'S MAIN CONCERN

REF: (A) BEIJING 823

(B) BEIJING 750

SUMMARY

1. (SBU) Ministry of Agriculture officials met the press on March 10 to discuss agricultural and rural development issues. The officials cited China's rural development accomplishments in 2007, notably the 9.5 percent increase in rural incomes, and also outlined the challenges ahead. Food prices and inflation, however, dominated the press conference with journalists from the mainland and abroad focusing on rising prices in China. Food safety also was a major focus of the press conference. END SUMMARY.

MINISTRY OF AGRICULTURE: 2007 ACCOMPLISHMENTS

2. (SB) Vice Minister of Agriculture Wei Chaoan told reporters at the press conference that the Central Government accomplished its agricultural and rural development goals in seven major areas in 2007:

- increased grain production for the fourth consecutive year;
- boosted rural incomes by 9.5 percent to RMB 4140 (USD (575));
- steadily developed agricultural industries, including livestock, vegetables, oilseeds, cotton, fruit;
- improved the living conditions and quality of farmers;
- accelerated progress in agricultural science and technology, including modernizing agricultural production;
- improved food safety and quality; and
- combated animal diseases, including avian influenza and blue ear disease.

RURAL DEVELOPMENT PROBLEMS REMAIN

3. (SBU) Wei also identified seven major challenges for rural development, including:

- guaranteeing food supply and protecting food security;
- narrowing the urban-rural income gap, which reached 3.33 to 1 in 2007;

--strengthening agricultural technology;
--investing more capital in rural areas, particularly in rural infrastructure;
--improving assistance for farmers' transition from agricultural to non-agricultural work;
--protecting the environment in rural areas; and
--recovering from winter storms.

INFLATION STILL THE TOP CONCERN

14. (SBU) With these general positives and negatives as a backdrop, rising food prices and growing Consumer Price Index (CPI) inflation were the top concern of the journalists covering the press conference, as was the case with NDRC Chairman Ma Kai on March 6 (Ref A). Wei acknowledged that increasing rural incomes is more important than ever before due to the rising cost pressure on poor farmers. Wei said that although food products account for one-third of the CPI basket, the government cannot simply say that the increasing CPI is totally the result of rising food prices. Wei said that rising labor and input costs, increasing consumption and the resulting imbalance in supply and demand, and influence from global markets all affect China's CPI. China needs to continue to increase agricultural production, Wei said, and the Number One Document's emphases on building up rural infrastructure and protecting arable land will be important factors in increasing production (Ref B).

15. (SBU) Throughout the press conference, Wei answered a barrage of questions about food prices. A foreign journalist asked about the

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impact of rising soybean prices on China, a Macao-based journalist inquired about the impact of winter storms on agricultural production, and two mainland reporters asked about livestock and vegetable prices. Wei maintained that rising prices are a threat to China's poor population. Wei stated that the winter storms would have a significant impact on rural incomes in southern and central China, but the impact on grain production would be limited as those regions primarily grow fruits and vegetables.

FOOD SAFETY CONCERNS

16. (SBU) Not surprisingly, food safety also was a hot topic during the press conference with a Japanese reporter asking about the safety of China's food exports, and a domestic reporter asking about food safety at home. Zhang Yuxiang, Director General of MOA's Department of Marketing and Information, answered with the oft-heard statement that China attaches great importance to food safety and more than 99 percent of China's food exports are safe. The quality of food at home as well as shipped abroad remains high, the officials said.

COMMENT: FEEDING FRENZY ON INFLATION

17. (SBU) The amount of attention paid to food prices and inflation by both domestic and foreign journalists is significant and follows the statements of the previous week by Premier Wen Jiabao and NDRC Chairman Ma Kai that inflation is a serious threat to China's macroeconomic development. Questions about inflation drowned out other possible topics at the press conference. With February CPI statistics due to be released on March 12 in the middle of the NPC, it is likely that inflation will attract even more attention before the NPC session concludes on March 18.

RANDT